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Respondent's Exhibit
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Illinois Commerce Commission
On Its Own Motion,

v.

North Shore Gas Company

00-0719

Reconciliation of revenues
collected under fuel and gas
adjustment charges with actual
costs.

DIRECT TESTIMONY
OF
DAVID WEAR

- 1 Q. Please state your name and business address.
- 2 A. David Wear. 150 N. Michigan Avenue, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. The Peoples Gas Light and Coke Company ("Peoples Gas").
- 5 Q. What position do you hold with Peoples Gas?
- 6 A. My current title is Manager of Gas Supply Administration.
- 7 Q. What are your responsibilities in that position?
- 8 A. I am responsible for negotiating, contracting, and dispatching the assets
- 9 that make up the gas supply portfolio of Peoples Gas and Respondent, North
- 10 Shore Gas Company.
- 11 Q. Please summarize your educational background and experience.

12 A. I received a Bachelor of Science degree in Liberal Arts and Sciences
13 (Geology) from the University of Illinois at Urbana-Champaign in 1981, and a
14 Master in Business Administration for the University of Illinois at Chicago in
15 1989. I began my employment with Peoples Gas in July of 1989 as a Staff
16 Computer Control Analyst in the Information Systems Planning and
17 Administrative Services Department. While in that department, I worked with
18 client areas in assessing their data processing needs and I assisted in the
19 design, acquisition, and implementation of various computer systems. In April of
20 1991 I was promoted to Associate Computer Control Analyst and participated in
21 corporate strategic information systems planning. I joined the Gas Supply
22 Contracts Department in January of 1993 as a Gas Supply Contracts Analyst
23 with responsibilities for managing term supply contracts, spot gas activities, and
24 pipeline logistics. Shortly after, this department merged with the Federal
25 Regulatory Affairs Department to become Gas Supply Administration. As a
26 member of Gas Supply Administration, I have held the titles of Senior Gas
27 Supply Contracts Analyst, Senior Gas Supply Trader, and Supervisor, before
28 becoming Manager of the department in April of 2000.

29 Q. What is the purpose of your direct testimony in this proceeding?

30 A. The purpose of my testimony is to describe Respondent's fiscal 2000
31 supply and capacity procurement practices, including negotiation of contracts
32 and related accounting and auditing practices.

33 Q. Please describe Respondent's fiscal 2000 fuel procurement area and
34 management control of the purchasing process.

35 A. Peoples Gas provides service for Respondent in these areas under an
36 intercompany service agreement approved by the Commission. The President
37 and Chief Operating Officer, to whom the Executive Vice President, Gas Supply
38 reported, had ultimate responsibility for determining Respondent's gas
39 purchasing strategy in fiscal 2000. The Executive Vice President, in consultation
40 with personnel in the Gas Supply Administration and Gas Supply Planning
41 Departments, and others, as appropriate, developed specific recommendations.
42 The Gas Supply Division was responsible for entering into and administering
43 contracts for the supply of natural gas and for purchases of transportation and
44 storage services, and administering the contract for storage services that
45 Peoples Gas provided to Respondent and would be responsible for formulating
46 and administering contractual provisions for purchases of propane.

47 Q. What procedure did Respondent follow in fiscal 2000 on a monthly basis
48 in order to select its monthly resource mix?

49 A. Each month, members of Peoples Gas' Gas Supply Administration and
50 Gas Supply Planning Departments met to address purchasing decisions for the
51 upcoming month. On a daily basis during the course of the month, as changing
52 requirements and the market dictated, these personnel addressed any changes
53 necessary to accommodate the need for additional supply or capacity or the
54 opportunity to release additional supply or capacity.

55 Q. Please describe the sources of firm gas supply contractually available to
56 Respondent for system supply during the reconciliation period.

57 A. During fiscal 2000, Respondent had long-term contracts in place with
58 several producer/marketers. Most of those contracts were for a period of one
59 year or less. Respondent also entered into a five-year contract with Enron North
60 America ("ENA") pursuant to which ENA acted as agent with respect to several of
61 these producer/marketer contracts and sold Respondent gas at the citygate. To
62 facilitate that agency and citygate supply relationship, Respondent released
63 some of its pipeline transportation capacity to ENA. For other of the supply
64 contracts, Respondent purchased the gas in the field and transported it to the
65 market using transportation contracts not released to ENA. Additionally, during
66 the winter period, Respondent had a storage contract in place with a pipeline
67 provider (ANR Pipeline Company ("ANR")). It continued to have a storage
68 contract with Peoples Gas.

69 Q. Did Respondent have any other sources of gas available for system
70 supply?

71 A. Yes. It had non-firm sources. It purchased supply on a monthly or daily
72 basis from producer/marketers on the spot market. Also, a significant portion of
73 Respondent's end use market opts for deliveries of customer-owned gas under
74 Respondent's Schedule of Rates. This gas was another source available to
75 Respondent for system supply.

76 Q. Please describe Respondent's contractual agreements for the purchase of
77 supply and capacity recovered through Respondent's monthly Gas Charge
78 filings.

79 A. During fiscal 2000, Respondent purchased a portion of its supply under
80 long-term firm contracts with producer/marketers. These purchases were made
81 under the terms of the individual contracts that Respondent had with each
82 producer/marketer. Generally, the nature of the service under the contracts was
83 either "baseload" or "swing." A baseload contract obligates Respondent to
84 purchase the full contract quantity each day of the contract term. A swing
85 contract permits Respondent to take any portion of its daily contract quantity on
86 any day, subject to timely nominations to the seller and pipeline transporter. The
87 ENA contract includes both baseload requirements and the opportunity to
88 purchase swing gas.

89 In fiscal 2000, Respondent purchased a portion of its total supply volumes
90 as spot purchases from various producer/marketers. It made spot purchases
91 from producer/marketers under the terms of the individual contracts that
92 Respondent had with each seller. Respondent's spot contracts with
93 producer/marketers typically provided for purchasing gas on a short-term basis.
94 Respondent made many spot purchases in fiscal 2000 on a day-to-day basis.
95 Under the contracts, the seller was not required to offer supply and Respondent
96 was not required to accept any offer.

97 Finally, Respondent had LP gas available had it been required to augment
98 peak day deliverability when Respondent's customer demand was in excess of
99 deliveries available from other sources. During the reconciliation period,
100 Respondent used LP gas only for testing of equipment at its LP peaking facility.

101 Capacity (both pipeline storage and transportation) transactions are
102 subject to contracts with the pipelines and with the pipelines' FERC Gas Tariffs.
103 The storage arrangement with Peoples Gas is governed by a contract between
104 the parties that was approved by the Commission.

105 Q. Did any significant changes to Respondent's transportation and storage
106 capacity portfolio occur in fiscal 2000?

107 A. Respondent's storage contract with ANR expired following the fiscal 2000
108 winter period, and Respondent entered into a new storage and a related
109 transportation contract with ANR as well as a new storage agreement with
110 Natural Gas Pipeline Company of America ("Natural"). Finally, some pipeline
111 transportation contracts expired during the reconciliation period and new
112 contracts were negotiated.

113 Q. What was Respondent's design day reserve margin in fiscal 2000?

114 A. In fiscal 2000, Respondent's reserve margin was approximately 3 percent
115 based on a design day defined as a January weekday with an average
116 temperature of -20° F. This is consistent with Respondent's actual reserve
117 margins beginning in fiscal year 1996. The reserve margin is intended to ensure
118 that Respondent will be able to serve its customers under extreme conditions.
119 Because of the serious adverse impacts on public health and safety of a gas
120 outage, in addition to the difficulties of restoring gas service, it is imperative that
121 Respondent plan for extreme conditions. Firm gas supply and deliverability to
122 Respondent's distribution system were thus set at levels that provide a margin
123 over Respondent's projected peak day requirements. This reserve margin was

124 necessary to accommodate, among other things, the fact that Respondent is
125 located near the end of Natural's and Northern Border Pipeline Company's
126 ("Northern Border") facilities, the possibility of deliverability shortfalls in
127 connection with storage and flow gas and the fact that requirements could
128 exceed design day projections.

129 Q. Were Respondent's incurred expenditures for fiscal 2000 gas supply
130 prudent?

131 A. Yes. The incurred gas supply expenditures for fiscal 2000 reflected
132 Respondent's continuing efforts to minimize the cost of its gas supply consistent
133 with operational and contractual constraints and the statutory obligation to
134 provide adequate and reliable service to customers during all periods of the year.

135 Q. What other efforts has Respondent made to ensure that pipelines serving
136 it provide reliable services on a best-cost basis?

137 A. Respondent made efforts to maintain adequate, reliable services from
138 pipeline transporters and to keep gas costs to a minimum by active participation
139 in its pipeline transporters' rate and certificate proceedings and other matters
140 before the FERC. Respondent's Gas Supply Administration and Legal
141 Departments monitored the filings of Respondent's principal pipeline suppliers of
142 storage and transportation services -- Natural, Northern Border, Tennessee Gas
143 Pipeline Company, Midwestern Gas Transmission Company and ANR. In
144 addition, Respondent monitored FERC rulemaking and policy proceedings.

145 Based on analyses of pipeline filings, Respondent intervened in significant
146 proceedings and sought to ensure that the pipelines provide services that allow

147 Respondent to satisfy its obligations to provide adequate, safe and reliable
148 service to its customers. Similarly, Respondent has participated in other FERC
149 proceedings and advocated positions that provide both cost and quality of
150 service benefits to its customers.

151 Q. In what other major federal regulatory proceedings did Respondent
152 participate?

153 A. Respondent continued to participate actively, both individually and as a
154 member of the American Gas Association ("AGA") in FERC rulemakings and
155 other generic proceedings affecting our customers. As an AGA member and
156 through its own comments, Respondent continued to support FERC authorization
157 of negotiated terms and conditions of service for pipeline contracts and greater
158 flexibility for the secondary market.

159 Q. Please describe the auditing procedures and monitoring related to
160 contract enforcement for Respondent's pipeline purchases.

161 A. The auditing procedures and monitoring related to enforcement of
162 contracts for natural gas delivered by pipelines interconnecting with Respondent
163 were as follows:

164 1. Energy delivered by Natural to Respondent is registered by
165 Respondent's electronic flow measurement ("EFM") equipment located at three
166 locations, including Peoples Gas' Manlove Field. Respondent's Gas Control
167 Department reviewed and monitored the accuracy of energy that was billed at all
168 three meters. If the Gas Control Department's measurement audit indicated an
169 energy discrepancy, the Gas Control Department would contact Natural to

170 resolve the discrepancy. Respondent's Gas Accounting Department reviewed
171 EFM data supplied by the Gas Control Department to independently compare
172 these data to the amount billed by Natural.

173 2. Natural also recalibrates its billing meters once a month.
174 Respondent's representative or a representative from Peoples Gas on behalf of
175 Respondent may be present at these recalibrations. Respondent's
176 representative or a representative from Peoples Gas on behalf of Respondent is
177 present for physical changes (e.g., orifice plate inspection or replacement)
178 involving a meter. Peoples Gas on behalf of Respondent, independently
179 operates equipment verifying the accuracy of Natural's meters.

180 3. Respondent monitored the gas quality and heating value of all gas
181 passing through the city gate by means of gas chromatographs that are
182 recalibrated on a regularly scheduled basis. Natural determines gas quality and
183 heating value at the Grayslake city gate station and uses Respondent's gas
184 quality and heating value determination for deliveries at the Tonne Road city
185 gate. Northern Illinois Gas Company ("NI-Gas") uses Respondent's gas quality
186 and heating value determination for deliveries at the Busse Road city gate. ANR
187 determines the gas quality and heating value at the Somers Road Station from a
188 chromatograph located on its system upstream of that point.

189 4. Respondent receives ANR deliveries at the Busse Road city gate.
190 NI-Gas operates electronic measurement equipment at its Busse Road station.
191 NI-Gas recalibrates its EFM equipment once a month. Respondent's
192 representatives may be present at these recalibrations. Peoples Gas' Gas

Control Department, on behalf of Respondent, reviews and monitors the accuracy of energy that is billed. Peoples Gas, on behalf of Respondent, independently operates equipment verifying the accuracy of the NI-Gas meters.

5. Respondent receives ANR deliveries directly from ANR at ANR's Somers Road Station located in Wisconsin. Respondent also receives Northern Border deliveries, *via* ANR, at Somers Road. ANR owns and operates electronic gas measurement equipment at Somers Road. ANR recalibrates their electronic gas measurement equipment once a month. Respondent's representative may be present at these recalibrations. Peoples Gas' Gas Control Department, on behalf of Respondent, reviews and monitors the accuracy of energy that is billed. Peoples Gas, on behalf of Respondent, independently operates electronic equipment verifying the accuracy of ANR's measurement.

6. Peoples Gas' Auditing Department examines the Gas Accounting Department's procedure once or twice each year to ensure that the proper procedure is being followed.

Q. Please describe the auditing procedures and monitoring programs related to enforcement of Respondent's contracts for purchases from producer/marketers, including ENA.

A. The gas purchased by Respondent from each producer/marketer was invoiced based on quantities delivered at the agreed delivery points. Each month the Gas Accounting Department verified that the appropriate unit prices have been used by each producer/marketer in the invoicing to Respondent.

215 Q. Please describe the auditing procedures and monitoring programs that
216 Respondent uses with respect to its gas transportation contracts.

217 A. The auditing procedures and monitoring related to the enforcement of the
218 transportation contracts with ANR, Natural and Northern Border were as follows:

219 1. Each of these pipelines renders monthly statements of the quantity
220 of gas received on behalf of Respondent from each seller at each receipt point
221 and the quantity of gas each transporter delivered to Respondent. The quantities
222 of gas received and delivered by each transporter were measured in accordance
223 with the General Terms and Conditions of its respective FERC Gas Tariff.

224 Respondent has access to transporter's measurement equipment at the receipt
225 and delivery points under the tariff provisions. The Gas Accounting Department
226 verified the accuracy of each monthly statement based on records of confirmed
227 daily nominations maintained by Peoples Gas' Gas Supply Administration
228 Department in coordination with each transporting pipeline.

229 2. Transportation charges for each of the various receipt points also
230 include a percentage retained by the transporter from gas received for
231 Respondent's account to compensate for the transporter's compressor fuel and
232 lost-and-unaccounted-for gas. The quantities retained by the transporter, the
233 transportation charges and the reservation fees were reviewed for accuracy by
234 the Gas Accounting Department against either published tariffs, contracts or
235 discount letters or agreements, as appropriate.

236 Q. Please describe the auditing procedures and monitoring programs that
237 Respondent uses with respect to propane.

238 A. Respondent did not purchase propane during the reconciliation period.
239 However, when Respondent purchases propane, it normally receives deliveries
240 by truck transport. Propane commodity and transportation charges would be
241 billed on a volumetric basis. Volumes would be checked upon receipt by
242 Respondent. The Gas Supply Division would review each billing with respect to
243 volumes, prices and calculations.

244 Q. Does this conclude your direct testimony?

245 A. Yes, it does.